AMERICAN VANADIUM CORP.

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
American Vanadium Corp.

We have audited the accompanying consolidated financial statements of American Vanadium Corp., which comprise the consolidated balance sheets as at December 31, 2014 and 2013 and the consolidated statements of comprehensive loss, changes in shareholders' (deficiency) equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of American Vanadium Corp. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about American Vanadium Corp.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 28, 2015

AMERICAN VANADIUM CORP.
CONSOLIDATED BALANCE SHEETS
IN CANADIAN DOLLARS

	December 31	December 31
	2014	2013
	$	$
ASSETS		
Current assets		
Cash	**78,413**	1,460,897
Amounts receivable	**42,826**	49,479
Prepaid expenses (Note 4)	**131,459**	123,101
Total current assets	**252,698**	1,633,477
Equipment and deposits on equipment (Note 5)	**31,508**	142,580
Reclamation deposit	**178,937**	148,393
Mineral properties (Note 6)	**41,637**	1,917,284
Total assets	**504,780**	3,841,734
LIABILITIES AND SHAREHOLDERS' (DEFICIENCY) EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	**2,268,093**	1,490,661
Total liabilities	**2,268,093**	1,490,661
Shareholders' (deficiency) equity		
Share capital (Note 7)	**30,100,545**	24,097,538
Equity reserves	**3,939,532**	3,493,384
Deficit	**(35,803,390)**	(25,239,849)
Total shareholders' (deficiency) equity	**(1,763,313)**	2,351,073
Total liabilities and shareholders' (deficiency) equity	**504,780**	3,841,734

Basis of presentation and continuance of operations (Note 2)

Commitments and contingencies (Note 13)

Events subsequent to the reporting period (Note 14)

On behalf of the Board:

Signed: "William Radvak" Director

Signed: "Brian E. Bayley" Director

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN VANADIUM CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
IN CANADIAN DOLLARS

	For the year ended December 31 2014	For the year ended December 31 2013
	$	$
Exploration and evaluation expenses (Note 6)	**(2,638,121)**	(4,284,046)
General and administrative expenses:		
Salaries and benefits (Note 8)	**1,427,172**	1,037,307
Consulting (Note 8)	**991,667**	608,055
Stock-based compensation (Notes 7 and 8)	**717,713**	487,402
Travel	**270,887**	258,703
Office facilities and administrative services (Note 8)	**206,221**	195,644
Office and sundry	**142,536**	111,991
CellCube demonstration	**134,542**	-
Audit and legal	**117,039**	151,788
Investor relations and shareholder information	**102,941**	148,322
Transfer agent, listing and filing fees	**60,325**	58,481
Amortization (Note 5)	**28,627**	31,131
Total general and administrative expenses	**(4,199,670)**	(3,088,824)
Impairment of mineral properties (Note 6)	**(2,111,926)**	-
Impairment of advances towards future CellCube sales (Note 4)	**(412,921)**	-
Impairment of equipment and deposits on equipment (Note 5)	**(1,004,036)**	-
Foreign exchange (loss) gain	**(203,910)**	48,418
Interest income	**7,043**	4,140
Write-off of water rights (Note 6)	**-**	(390,338)
Impairment of engineering management deposit (Note 6)	**-**	(568,895)
Net comprehensive loss	**(10,563,541)**	(8,279,545)
Basic and diluted loss per share (Note 12)	**(0.18)**	(0.22)

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN VANADIUM CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIENCY) EQUITY
IN CANADIAN DOLLARS

	Share Capital	Equity Reserves	Deficit	Total
	$	$	$	$
Balance, December 31, 2012	17,461,187	2,876,809	(16,960,304)	3,377,692
Private placements, net of share issuance costs	6,447,200	281,048	-	6,728,248
Exercise of stock options	56,151	(18,875)	-	37,276
Stock-based compensation (Note 7)	133,000	354,402	-	487,402
Net comprehensive loss for the year	-	-	(8,279,545)	(8,279,545)
Balance, December 31, 2013	24,097,538	3,493,384	(25,239,849)	2,351,073
Private placements, net of share issuance costs	5,710,958	12,204	-	5,723,162
Exercise of warrants	9,674	(1,394)	-	8,280
Stock-based compensation (Note 7)	282,375	435,338	-	717,713
Net comprehensive loss for the year	-	-	(10,563,541)	(10,563,541)
Balance, December 31, 2014	**30,100,545**	**3,939,532**	**(35,803,390)**	**(1,763,313)**

AMERICAN VANADIUM CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
IN CANADIAN DOLLARS

	For the year ended December 31 2014	For the year ended December 31 2013
	$	$
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		
Net comprehensive loss	**(10,563,541)**	(8,279,545)
Items not involving cash:		
Impairment of mineral properties	**2,111,926**	-
Impairment of equipment and deposits on equipment	**1,004,036**	-
Stock-based compensation	**717,713**	487,402
Unrealized foreign exchange gain	**(95,174)**	-
Amortization	**28,627**	31,131
Impairment of engineering management deposit	**-**	568,895
Write-off of water rights	**-**	390,338
Changes in non-cash working capital balances:		
Amounts receivable	**8,814**	(7,151)
Accounts payable and accrued liabilities	**17,795**	219,467
Prepaid expenses	**18,986**	(33,685)
Income tax receivable	**-**	102,035
Deferred engineering management expense and deposit	**-**	(11,815)
Non-operating income:		
Interest income	**(7,043)**	(4,140)
Net cash used in operating activities	**(6,757,861)**	(6,537,068)
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
Mineral property acquisition costs	**(236,279)**	(385,455)
Purchase of equipment and payment of equipment deposit	**(117,847)**	(99,480)
Increase in reclamation deposit	**(8,982)**	(3,082)
Interest income	**7,043**	4,140
Net cash used in investing activities	**(356,065)**	(483,877)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares, net of issuance costs	**5,731,442**	6,765,524
Net cash provided by financing activities	**5,731,442**	6,765,524
Change in cash for the year	**(1,382,484)**	(255,421)
Cash, beginning of year	**1,460,897**	1,716,318
Cash, end of year	**78,413**	1,460,897

Supplemental Cash Flow Information

Non-cash financing activities

During the year ended December 31, 2014, the Company issued 620,000 (2013 - 325,000) of its common shares to certain employees for achievement of performance milestones or as bonuses. The value attributed to shares issued in 2014 was $282,375 (2013 - $133,000).

During the year ended December 31, 2014, the Company issued 100,575 (2013 – 80,640) share purchase warrants valued at $12,204 (2013 - $6,825) as payment for agents' and finders' fees related to various private placements of common shares. These values are recorded as share issuance costs, reducing the value of shareholders' (deficiency) equity.

During the year ended December 31, 2014, $1,394 was reclassified from equity reserves to share capital on the exercise of warrants. During the year ended December 31, 2013, $18,875 was reclassified from equity reserves to share capital on the exercise of stock options.

Income taxes and interest paid

During the year ended December 31, 2014, the Company did not receive or pay any amounts for income taxes. During the year ended December 31, 2013, the Company received a tax refund US$102,558.

1. NATURE OF OPERATIONS

American Vanadium Corp. (the "Company"), incorporated under the *Canada Business Corporations Act*, is the Master Sales Agent in North America for the CellCube vanadium redox flow energy system ("CellCube"), produced by Gildemeister Energy Solutions, Cellstrom GmbH ("Gildemeister") of Germany. The CellCube is a commercially available vanadium flow battery capable of delivering long-duration energy storage for a broad range of applications, such as renewable energy integration and the reduction of demand charge tariffs levied by utilities.

In addition to marketing CellCube units, the Company has claims in the Gibellini Property ("Gibellini"), a vanadium deposit located in Eureka County, Nevada, which is in the permitting stage. The Company is seeking to integrate its operations so that future off-take from a mine at Gibellini could be converted to vanadium electrolyte in vanadium redox flow batteries.

The address of the Company's principal place of business is Suite #910, 800 W. Pender Street, Vancouver, British Columbia, Canada, and its shares trade on the TSX-Venture Exchange (the "Exchange") under the symbol "AVC" and are quoted on the OTCQX under the symbol "AVCVF".

2. BASIS OF PRESENTATION AND CONTINUANCE OF OPERATIONS

Statement of compliance

These consolidated financial statements, including comparative periods, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements have been prepared in accordance with IFRS in effect as at December 31, 2014. Significant accounting policies and the applicable basis of measurement used in the preparation of these consolidated financial statements are described in Note 3.

These consolidated financial statements were authorized by the Board of Directors on April 28, 2015.

Going concern

These consolidated financial statements have been prepared on the assumption that the Company will continue on a going concern basis. The Company has generally incurred net losses and negative operating cash flows since its incorporation. The ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is marketing Gildemeister's CellCube vanadium redox flow batteries, which may provide some operating cash flow, but as this activity is still in a start-up phase and no firm sales have been made, the Company is solely dependent upon its ability to raise funds in capital markets to meet its operating requirements and to finance the permitting and development of Gibellini.

Owing to adverse conditions in the Company's capital market, there can be no assurance that the Company will be able to develop profitable operations or continue to raise additional funds, in which case the Company may be unable to meet its financial obligations. As a result, the Company as recorded impairments on certain prepaid expenses (Note 4), deposits on equipment (Note 5), and mineral properties (Note 6). Should the Company be unable to generate funds from the sale of shares or assets to discharge its liabilities in the normal course of business, further impairments may be incurred. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The Company's ability to raise additional funds is dependent on favourable conditions in equity and alternative investment markets, which are volatile and subject to significant uncertainty. The Company will continue to identify alternative sources of financing, but anticipates reliance on equity markets in the near term. Based on these factors, there is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

As at December 31, 2014, the Company had a working capital deficit of $2,015,395 (2013 - $142,816 surplus) and had a shareholders' deficiency of $1,763,313 compared with shareholders' equity of $2,351,073 as at December 31, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies are those policies which the Company has applied for its consolidated financial statements for the years ended December 31, 2014 and 2013. These policies have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

These consolidated financial statements include the balances and results of the Company and those entities over which the Company exercises control. Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations.

These consolidated financial statements include the assets, liabilities, income and expenses of the Company and its wholly-owned U.S. subsidiary, American Vanadium US Inc. All intercompany transactions and balances have been eliminated on consolidation. Unless otherwise indicated, all amounts are reported in Canadian dollars.

Basis of measurement and presentation currency

The balances in these consolidated financial statements are prepared using the accrual basis of accounting and have been measured on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company and American Vanadium US Inc.

Government grants

From time to time, the Company may receive grants from governments or government agencies towards the purchase and installation of demonstration CellCube units. When the Company has performed requisite activities and it is virtually certain that these grants will be received, the Company accrues the grants receivable with the offset being recorded as a reduction to the cost base for installations that it records as assets, and as income for other installations.

Foreign currency translation

The functional currency, the primary currency in which an entity operates, is determined for the Company and its consolidated subsidiary. Balances and transactions that are denominated in currencies other than the functional currency are translated to the functional currency as follows:

- Revenue and expense items are translated at the foreign exchange rates prevailing on the dates they occur.
- Non-monetary assets and liabilities are translated at historical foreign exchange rates, unless such items are carried at market value, in which case they are translated at the exchange rate in effect at period end.
- Monetary assets and liabilities are translated at the foreign exchange rate in effect at period end.

Gains and losses arising from changes to the exchange rates used to translate foreign-denominated balances and transactions into the functional currency are recorded as a component of net loss in the period in which they occur.

Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss," "loans and receivables," "available-for-sale," "held-to-maturity," or "financial liabilities measured at amortized cost" as follows:

i) Financial assets

Financial assets classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in net loss for the period in which such gains or losses occur. The Company's cash is classified as fair value through profit or loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest rate method. Under this method, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as interest income. The Company's amounts receivable and reclamation deposit are classified as loans and receivables and no financial assets have been classified as held-to-maturity.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income except for losses in value that are considered other than temporary. Upon disposal of an available-for-sale financial asset, any accumulated other comprehensive income or loss at the time of disposal is recognized in profit or loss. No financial assets have been classified as available-for-sale by the Company.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

ii) Financial liabilities

For financial liabilities classified as financial liabilities measured at amortized cost using the effective interest rate method, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as interest expense. The Company's accounts payable and accrued liabilities are classified as financial liabilities measured at amortized cost, but as the terms of payment are generally of short duration, they are recorded at future value as the impact of discounting is immaterial.

Reclamation deposits

Regardless of whether an actual liability for the reclamation of mineral properties exists, the Company classifies amounts deposited with environmental agencies or amounts held as security for potential reclamation liabilities separately from cash.

Equipment

Equipment is recorded at cost less accumulated amortization. Cost includes the purchase price of the equipment and the directly related costs to transport or prepare the equipment for its intended use. Once an asset is considered to be ready for use, amortization is recorded on a straight-line basis over three to five years, which represents the estimated useful lives of the assets.

Deferred engineering management expense and deposit

In 2013, the Company was party to an engineering, procurement and construction management ("EPCM") contract. Payments were made pursuant to the contract are initially recorded as a deferred expense asset, which is then amortized on a percentage-of-completion basis. Percentage-of-completion is measured on the basis of elapsed time since the inception of the contract as a proportion of the estimated duration required to complete the related work.

The Company also paid a deposit at the outset of the EPCM contract. The deposit balance is assessed for impairment each reporting period, and when the economic benefits from the deposit are no longer expected to flow to the Company, the balance is reduced to its likely economic value.

Mineral properties

The Company's accounting policy for mineral property costs is dependent on the stage of the properties to which the costs relate. All capitalized costs are attributed to the individual mineral properties to which they relate.

Acquisition costs

All costs incurred to acquire or maintain mineral property rights are capitalized to the relevant property. These costs are not depleted until the property reaches production.

Exploration and evaluation expenses

Costs related to the exploration and evaluation of properties for which no technically or economically feasible reserves have been identified are recorded as an expense in the period incurred. The Company determines that technical and economic feasibility exists when:

- a feasibility study, prepared in accordance with professional geological standards, defines a proven mineral reserve body;
- the Company intends to recover the mineral reserves through mining activity or sale of mineral rights; and
- the Company has sufficient financing available to develop a mine.

Development costs

When technical and economic feasibility exists for a certain property, all costs incurred to further prepare and develop a mine, or to ready the reserve rights for sale, are capitalized. Such costs may include interest on debt financing required to construct a mine or general and overhead expenses that are directly attributable to the property. These capitalized costs are not subject to depletion until such time as the mine is ready for production or the mineral rights are saleable, at which point they are depleted on a unit-of-production basis over the estimated recoverable reserves of each property.

Post-development costs

After a mine is ready for production or mineral reserves are saleable, all costs, including interest on related debt and general and administrative costs are expensed in the period incurred unless they relate to an extension of mineral reserves or a significant improvement in mining operations. In these instances, the expenditures related to the betterment are capitalized and are depleted on a unit-of-production basis over the remaining recoverable reserves.

Impairment of mineral properties and equipment

The carrying amounts of equipment and mineral properties are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. The recoverable amount of an asset is determined as the higher of its fair value less cost to sell and its value in use. An impairment loss exists if the asset's carrying amount exceeds the recoverable amount and is recorded as an expense when identified. Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the property to which the asset belongs is determined.

Value in use is determined as the present value of the future cash flows expected to be derived from an asset or property. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. Fair value less cost to sell is the amount obtainable from the sale of an asset or property in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. For mineral properties, fair value less cost to sell is often estimated using a discounted cash flow approach as fair values from active markets or binding sale agreements are not readily available. Estimated future cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs. All assumptions used are those that an independent market participant would consider appropriate.

Impairments on equipment and mineral properties may be reversed in subsequent periods. When a reversal of impairment is recorded, the carrying value of the asset is increased to its recoverable amount which cannot exceed the carrying amount of the asset that would have existed had no impairment been recognized in prior periods. Any reversal of impairment is recognized as a component of profit or loss when identified.

Deferred financing costs

Expenditures directly related to share issuances are recorded as a deferred financing cost until such time as the shares are issued. When shares are issued, the deferred financing cost is recognized as a reduction of the net proceeds from the share issuance. If no shares are issued, these deferred financing costs are recognized as a component of comprehensive loss.

Current and deferred income taxes

Current taxes receivable or payable are estimated on taxable income for the current period at the statutory tax rates enacted or substantively enacted on the balance sheet date.

Deferred tax assets and liabilities are recognized based on the difference between the tax and accounting values of assets and liabilities and are calculated using enacted or substantively enacted tax rates for the periods in which the differences are expected to reverse. The effect of tax rate changes is recognized in earnings or equity, as the case may be, in the period of substantive enactment.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits of the relevant entity or group of entities, in a particular jurisdiction, will be available against which the assets can be utilized.

Reclamation provision

The Company recognizes a provision for environmental reclamation of its mineral properties in the period in which the Company becomes legally or constructively liable for future reclamation expenditures. The reclamation provision is initially measured as the present value of future expected reclamation cash flows, discounted using the risk-free interest rate prevailing at the time the liability is incurred, and a corresponding amount is recorded in the carrying value of the related mineral property.

Subsequent to initial measurement, the provision is re-measured using the risk-free interest rate prevailing on each reporting date. Changes to the carrying value of the provision for changes to the discount rate, or for changes to the timing and amount of expected future reclamation cash flows are recorded as an adjustment to the carrying value of the related mineral property. Changes to the carrying value of the provision from the accretion of its discounted value are recorded as a financing expense.

As at December 31, 2014 and 2013, the Company has no known environmental reclamation commitments.

Stock-based compensation

Stock options

The Company recognizes a stock-based compensation charge in operations for stock options granted to employees, officers and directors of the Company, as well as to external consultants. The stock-based compensation charge is based on the fair value of option awards granted, measured using the Black-Scholes option pricing model at the date of issue. The fair value of stock options granted is amortized to expense on a graded basis over the vesting periods of the option granted with an off-setting amount recorded in equity reserves. Any expense recorded for options that are forfeited because non-market vesting conditions are not satisfied is reversed in the period in which forfeiture occurs.

Restricted share units and performance shares

Certain restricted share units and performance shares are granted to employees or consultants to the Company vest and are settled by the issuance of common shares in the Company upon the achievement of non-market, performance milestones. The Company records an expense for those shares which it determines are likely to be issued, at the time that this determination is made. A corresponding equity reserve balance is recognized,

which is reclassified to share capital when earned shares are issued. Should shares considered likely to be issued subsequently be considered not likely to be issued, an expense recovery and reversal of the reserve is recorded.

Warrants

Warrants issued by the Company typically accompany an issuance of shares in the Company, and entitle the warrant holder to exercise the warrants for a stated price and a stated number of common shares in the Company. The residual value of the warrants is measured as the incremental difference between the value of the combined share and warrant unit and the fair value of the stand-alone shares; the residual value attributed to warrants is recorded as a component of equity reserves. When warrants are exercised, the fair value of the exercised warrants is reclassified to share capital.

(Loss) earnings per share

Basic (loss) earnings per share is calculated using the weighted-average number of shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of options, warrants and other convertible instruments. Under this method, the dilutive effect on earnings per share reflects the assumption that the proceeds from the exercise of options, warrants and other convertible instruments are used to purchase and cancel common shares at the average market price during the period. In periods that the Company reports a net loss, loss per share is not presented on a diluted basis, as the result would be anti-dilutive.

Judgments, estimates and measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Although these estimates are based on management's expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

Areas where management is required to make significant estimations or where measurements are uncertain are as follows:

i. Carrying value of mineral properties and equipment

The measurement, expected recovery and impairment of mineral properties and equipment are based on various judgments and estimates. For mineral properties, these include the technical and commercial feasibility of these properties, which incorporates various assumptions for mineral reserves, future mineral prices, and operating and capital expenditures for the properties. For equipment, such judgments and estimates include the useful lives of the assets, and the likely cash flows or commercial benefit such assets are likely to generate.

In addition to these factors, the carrying value and potential for impairment of mineral properties and equipment, also depends on management's expectation for the likely outcome of a property or use of an asset, which itself is dependent on factors such as availability of financing, obtaining regulatory approvals, and availability of buyers for the Company's mineral or other products.

Should there be differences between actual and anticipated mineral reserves, mineral revenues and costs, or should the Company no longer have the intention, resources, requisite approvals or customer base to develop or otherwise realize value from a mineral property or equipment, impairments may be recognized. If impairment factors which result in an impairment being recorded become favourable, a reversal on impairment may occur.

ii. Deferred engineering management expense and deposit

The carrying value of the deferred engineering expense and deposit, as well as the expense recognized in a reporting period, is based on the percentage of estimated total duration of a project phase that has been incurred to a reporting date. This calculation requires management to estimate the total duration of a project phase, which it does in consultation with the contractor.

Any impairments recognized on the carrying value of the deferred engineering expense and deposit are based on assessments of the contractor's ability to provide future services of value or to refund any prepaid amounts. In making such estimates and judgments, management considers its intentions and ability to continue with the EPCM contract, and whether any contract terminations or amendments would result in the Company foregoing any value from the balance carried. Additionally, in assessing whether an impairment should be recorded, management must make judgments on the contractor's ability to refund amounts owed to the Company or to complete contracted services for which prepayments have been made. Should the actual outcomes of these factors differ from those estimated by management, the Company may recognize a significant change in the carrying value of the deferred engineering management expense and deposit.

iii. Reclamation provision

The Company records a reclamation provision for the discounted present value of expected future expenditures, if any, required to environmentally reclaim its mineral properties. The measurement of this provision, if one exists, is based on estimates for the amounts and timing of future cash flows. Differences between actual cash flows and those estimated could result in the reclamation provision being over or understated.

iv. Taxation

Tax provisions are recognized to the extent that it is probable that there will be a future outflow of funds to a taxation authority. Such provisions often require judgment on the treatment of certain taxation matters that may not have been reported to or assessed by the taxation authority at the date of these financial statements. Differences in judgment by the taxation authority could result in changes to actual taxes payable by the Company.

Deferred tax assets are recognized to the extent that it is probable that certain taxable losses or deferred expenditures will be utilized by the Company to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based on objective evidence that the Company will generate sufficient future taxable income to utilize these deferred assets, as well as the expected future tax rates that will apply to these assets. Changes to the Company's ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

v. Stock-based compensation

v.i. Stock options

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and share purchase warrants granted. This model requires management to estimate the volatility of the Company's future share price, expected lives of stock options and future dividend yields. Consequently, there is significant measurement uncertainty in the stock-based compensation expense reported.

v.ii. Restricted share units and performance shares

The determination of whether or not the achievement of performance milestones for restricted share units and performance shares is likely requires management to consider factors such as the likelihood of an employee or consultant remaining with the Company until requisite performance is achieved as well as external factors such as government regulations, financial market developments and industry trends which influence the milestones. Additionally, factors internal to the Company, such as the financial and strategic support for the achievement of the milestone must be considered. This determination is subject to significant

judgment and changes to any of these factors or management's interpretation thereof, may result in expenses being recognized or previously recognized expense being reversed.

Adoption of new IFRS

The Company adopted the following new IFRS that became effective for fiscal years starting on January 1, 2014, which did not have a significant impact on the Company`s financial results:

IAS 32, "*Financial Instruments: Presentation*"

IAS 32 was amended to clarify requirements for offsetting financial assets and financial liabilities.

Future changes in accounting policies

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period. These standards have been assessed and are not expected to have a significant impact on the Company's financial statements:

i. IFRS 3, *"Business Combinations"*

IFRS 3 is amended to provide clarification related to (i) contingent consideration in a business combination and (ii) scope exception for joint arrangements. These amendments are effective for fiscal years beginning on or after July 1, 2014.

ii. IFRS 8, *"Operating Segments"*

IFRS 8 is amended to require (i) disclosure of judgments made by management in aggregating segments, and (ii) a reconciliation of segment assets to the entity's assets when segment assets are reported. These amendments are effective for fiscal years beginning on or after July 1, 2014.

iii. IFRS 9, *"Financial Instruments"*

The IASB intends to replace IAS 39 – "Financial Instruments: Recognition and Measurement" in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 can currently be adopted voluntarily, but is mandatory for years beginning on or after January 1, 2018.

iv. IFRS 16, *"Property, Plant and Equipment and IFRS 38, Intangible Assets"*

IFRS 16 and IFRS 38 are amended to classify how gross carrying amount and accumulated depreciation or amortization are treated where an entity uses the revaluation model. These amendments are effective for fiscal years beginning on or after July 1, 2014.

v. IFRS 24, *"Related Party Transactions"*

IFRS 24 is amended to (i) revise definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements. These amendments are effective for fiscal years beginning on or after July 1, 2014.

4. PREPAID EXPENSES

Changes to the balance of prepaid expenses for the years ended December 31, 2014 and 2013 are as follows:

	Amount
	$
Balance, December 31, 2012	89,416
Net change in expense advances and rental and other deposits	33,685
Balance, December 31, 2013	123,101
Advances towards future CellCube sales	442,882
Foreign exchange loss on advances towards future CellCube sales	(29,961)
Impairment of advances towards future CellCube sales	(412,921)
Net change in expense advances and rental and other deposits	8,358
Balance, December 31, 2014	**131,459**

During the year ended December 31, 2014, the Company made a $338,512 non-refundable advance and accrued an additional $104,370 as partial payments towards future CellCube sales. No sales have yet occurred and the Company does not have the required capital to make the remaining payments for the CellCube units, and, as a result, the Company has recorded an impairment of prepayments made or accrued which totalled $412,921, net of a $29,961 foreign exchange adjustment. Should the Company receive definitive purchase orders, obtain financing to meet any future payments, or find an alternative realization of value from these payments, a full or partial reversal of the impairment may be recorded in future periods.

5. EQUIPMENT AND DEPOSITS ON EQUIPMENT

Changes to the Company's equipment balances are as follows:

	Field Equipment	Office Equipment	Vehicles	Total
	$	$	$	$
Cost				
Balance, December 31, 2012	41,655	46,787	41,118	129,560
Additions	-	15,299	-	15,299
Balance, December 31, 2013	41,655	62,086	41,118	144,859
Additions	-	1,736	-	1,736
Balance, December 31, 2014	**41,655**	**63,822**	**41,118**	**146,595**
Accumulated amortization				
Balance, December 31, 2012	29,709	10,675	14,945	55,329
Additions	8,608	8,842	13,681	31,131
Balance, December 31, 2013	38,317	19,517	28,626	86,460
Additions	3,338	17,010	8,279	28,627
Balance, December 31, 2014	**41,655**	**36,527**	**36,905**	**115,087**
Carrying value				
December 31, 2012	11,946	36,112	26,713	74,231
December 31, 2013	3,338	42,569	12,492	58,399
December 31, 2014	**-**	**27,295**	**4,213**	**31,508**

Deposits on equipment

In addition to the equipment balances above, as at December 31, 2014, the Company had paid or accrued a total of $1,004,036 in non-refundable instalments towards CellCube units which were to be held by the Company for demonstration purposes, with the possibility of future resale. Of this amount, $116,111 was paid and $856,209 had been accrued during the year ended December 31, 2014, partially offset by a $52,465 reduction for government grants receivable. An additional $84,181 was paid during the year ended December 31, 2013. As a result of insufficient capital to complete these demonstration projects and to meet final instalment payments required on the CellCube units, the Company recorded a $1,004,036 impairment expense to the carrying value of these deposits. Should the Company obtain sufficient capital in the future in order to meet remaining payments for these units, or should alternative financial value from these deposits be realized, the impairment may be partially or fully reversed in future reporting periods.

6. MINERAL PROPERTIES

Summary of properties

a) Gibellini Property, Nevada, U.S.

In March 2006, the Company entered into a Mineral Lease Agreement to acquire certain unpatented lode mining claims, paying US$60,000 upon the execution of the agreement. Pursuant to the terms of the agreement, the Company is required to pay a production royalty of 2.5% of the net smelter returns ("NSR") of all mineral substances produced from the claims, to a maximum of US$3,000,000, at which point the production royalty decreases to 2.0%. The Company is also required to pay US$30,000, quarterly, and such payments are credited against any future production royalties payable. As of December 31, 2014, the Company has paid a total of

US$840,000 in these advance royalty payments, including US$90,000 paid during the year ended December 31, 2014. As at December 31, 2014, the Company owed US$30,000 towards one claim payment. Subsequent to December 31, 2014, this amount was paid and no notice of default was received.

In December 2006, the Company entered into a Mineral Lease Agreement to acquire additional unpatented lode mining claims, paying US$9,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company is required to pay an initial production royalty payment of US$30,000 within 60 days of production from the claims and a production royalty of 3.0% of NSR of all mineral substances produced from the claims. Also, the Company must pay an escalating series of annual payments, which will be credited against any future production royalties payable. As of December 31, 2014, the Company has paid a total of US$143,000 in these advance royalty payments, and an additional annual payment of US$24,000 was outstanding. Subsequent to December 31, 2014, this payment was settled by the Company and no notice of default was received. Further, the Company has the option to purchase these claims for a total purchase price of US$1,000,000.

In April 2007, the Company entered into a Mineral Lease Agreement to acquire further unpatented lode mining claims, paying US$10,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company was required to pay US$15,000 annually as a prepayment towards a production royalty of 2.5% of NSR of all mineral substances produced from the claims. In 2011, the Company acquired full ownership of these claims for a cash payment of US$50,000 and the issuance of 25,000 of its common shares valued at $33,750, in addition to US$60,000 in cumulative annual payments made prior to acquisition, thereby eliminating future advance royalty payments.

In 2011, the Company staked unpatented lode claims and placer claims and in 2012 additional unpatented lode claims were staked.

For the year ended December 31, 2013 the Company paid US$231,090 in towards to water lease agreements, one of which was cancelled during 2013 for an additional payment of US$100,000 and an agreement to pay a further US$25,000 in each of 2014 and 2015. As a result of the cancellation, $390,338 in related capitalized costs from previous periods related to the cancelled water rights was written-off from the mineral property balance and an expense of $531,033 was incurred for the year ended December 31, 2013, comprising the amount written-off, the cancellation payments paid or accrued, and legal fees incurred for the cancellation. The Company pays annual fees of US$125,000 for its remaining water rights; the payment required for 2014 was paid during the year ended December 31, 2014.

b) Del Rio Property, Nevada, U.S.

In 2010, the Company acquired 120 claims through the staking process.

c) Hot Creek Property, Nevada, U.S.

In 2010, the Company acquired 18 claims through the staking process.

Acquisition costs

As at December 31, 2014 and prior periods, the carrying values of mineral properties were comprised solely of capitalized acquisition costs for mineral and related water rights. Changes to these carrying values are as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
As at December 31, 2012	1,873,313	39,683	9,171	1,922,167
Additions	385,455	-	-	385,455
Write-off of water rights	(390,338)	-	-	(390,338)
As at December 31, 2013	1,868,430	39,683	9,171	1,917,284
Additions	236,279	-	-	236,279
Impairment of mineral properties	(2,063,072)	(39,683)	(9,171)	(2,111,926)
As at December 31, 2014	**41,637**	**-**	**-**	**41,637**

The Company has capitalized, rather than expensed, payments for mineral and related water rights on the basis that holding title to the related properties and water rights allows the Company to develop these properties in the future. Acquiring and maintaining title to mineral properties involves certain inherent risks due to difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties.

Impairment of mineral properties

In the year ended December 31, 2014, the Company recognized an impairment charge of $2,111,926 to the carrying value of its mineral properties. The assessment of the carrying value of these properties was generally triggered by unfavourable market conditions for exploration-stage companies. Owing to these market conditions, the Company does not have sufficient capital to fund near-term metallurgical, permitting and other property initiatives, and has slowed these initiatives significantly during the second half of 2014. Additionally, as at December 31, 2014, certain property claims payments totalling US$54,000 were outstanding and have been paid subsequently.

Coupled with adverse financing conditions, which have led to reductions in exploration and development activities on the Company's mineral properties, market prices for vanadium have persisted at lower levels than those required for commercial production. As a result, the Company impaired its Gibellini property to a carrying value of $41,637 as at December 31, 2014, representing its estimated minimum fair value less costs to sell based on unobservable (Level 3) valuation inputs and the Del Rio and Hot Creek properties have been impaired to $nil carrying values.

Should the Company obtain adequate financing in the future and should market pricing for vanadium recover, the Company may record a reversal of this impairment in future periods.

Exploration and evaluation expenses

During the year ended December 31, 2014, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
Environmental permitting	851,951	-	-	851,951
Metallurgy	748,022	-	-	748,022
Engineering, procurement and construction management	252,752	-	-	252,752
General	226,996	-	-	226,996
Geotechnical	15,485	-	-	15,485
Labour and benefits	189,931			189,931
Leach pad design	94,576	-	-	94,576
Satellite office	103,300	-	-	103,300
Property maintenance	90,369	19,864	3,204	113,437
Drilling and trenching	2,518	-	-	2,518
Feasibility study	39,153	-	-	39,153
	2,615,053	**19,864**	**3,204**	**2,638,121**

During the year ended December 31, 2013, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
Environmental permitting	1,491,908	-	-	1,491,908
Metallurgy	904,067	-	-	904,067
Engineering, procurement and construction management	793,472	-	-	793,472
General	294,782	-	-	294,782
Power	258,515	-	-	258,515
Water	161,160	-	-	161,160
Geotechnical	157,032	-	-	157,032
Engineering	148,754	-	-	148,754
Leach pad design	114,167	-	-	114,167
Property maintenance	93,251	19,563	3,438	116,252
Drilling and trenching	16,308	-	-	16,308
Feasibility cost recovery	(172,371)	-	-	(172,371)
	4,261,045	**19,563**	**3,438**	**4,284,046**

Deferred engineering management expense and deposit

In 2011, the Company entered into the EPCM agreement with an independent contractor who will manage various phases of the development of a mine at Gibellini. These phases include basic and detailed engineering, asset and service procurement, and mine construction. On the commencement of the basic engineering phase, the Company paid a US$559,936 deposit, and additional monthly installments totalling US$2,799,679 have been paid. Payments made or accrued are recorded on the consolidated statement of financial position as a deferred engineering management expense, which is then recognized as an expense on a percentage-of-completion basis over the duration of the anticipated service. As at December 31, 2013, the contractor has completed the basic engineering phase and all payments required under the phase have been made.

Impairment of engineering management deposit

In December 2013, the Company determined that, owing to expected changes to the contractor's future role in the Gibellini project, there was sufficient evidence that the economic benefits from the engineering management deposit may no longer flow to the Company, and that the IFRS criteria for asset recognition are no longer met. Consequently, an impairment of $568,895 has been recorded on the value of the deposit for the year ended December 31, 2013. However, when the contractor's role has been clarified and the economic benefits from the deposit, if any, are known, the Company may recognize a recovery on impairments recorded to date.

Changes to the deferred engineering management expense and deposit balance are as follows:

	Amount
	$
Balance, December 31, 2012	557,080
Monthly installments paid or accrued	537,978
Expense recognized for percentage-of-completion achievement	(537,978)
Foreign exchange gain	11,815
Impairment	(568,895)
Balance, December 31, 2014 and 2013	**-**

7. SHAREHOLDERS' (DEFICICIENCY) EQUITY

Share capital

Authorized

Unlimited number of common voting shares with no par value.

Issued and outstanding

	Number of Common Shares	**Amount**
		$
Outstanding, December 31, 2012	33,524,250	17,461,187
Issued through private placements, net of share issuance costs	13,267,698	6,447,200
Issued on exercise of stock options	53,250	56,151
Issued on vesting of performance shares	325,000	133,000
Outstanding, December 31, 2013	47,170,198	24,097,538
Issued through private placements, net of share issuance costs	16,060,000	5,710,958
Issuance of bonus shares and performance shares	620,000	282,375
Issued on exercise of warrants	13,800	9,674
Outstanding, December 31, 2014	**63,863,998**	**30,100,545**

Private placements

On April 11, 2013, the Company completed a non-brokered private placement of 1,607,698 common share units at a price of $0.70 per unit for gross proceeds of $1,125,388. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitled the holder to purchase an additional common share at a price of $1.20 until April 11, 2014. The value of these units has been bifurcated between common shares at a value of $0.58 per share and warrants at a value of $0.12 per one-half warrant. An additional 840 agent's warrants were issued as part of this private placement with a fair value of $93. Each agent's warrant entitled the holder to purchase one common share at a price of $1.20 per common share until April 11, 2014. Transaction costs for the private placement, which include cash commissions, and legal and other fees, totalled $14,075.

On September 30, 2013, the Company completed the first of two tranches of a non-brokered private placement. Under this tranche, the Company issued 8,130,000 common share units at a price of $0.50 per unit for gross proceeds of $4,065,000. Each unit consisted of one common share, one-half of one common share purchase warrant exercisable at $0.60 and one-half of one common share purchase warrant exercisable at $0.80. Each whole $0.60 warrant entitled the holder to purchase an additional common share at a price of $0.60 until March 30, 2014, which was subsequently extended until September 30, 2014, and each whole $0.80 warrant entitles the holder to purchase an additional common share at a price of $0.80 until September 30, 2015. The value of these units has been bifurcated between common shares at a value of $0.49 per share with the residual value of $0.01 being attributed to the warrants. Agents for the private placement received 23,100 of the $0.60 warrants and 23,100 of the $0.80 warrants with a combined fair value of $3,628. Transaction costs for this tranche, which include warrant and cash commissions, and legal and other fees, totalled $154,663.

On November 4, 2013, the Company completed the second tranche of the September 30, 2013 non-brokered private placement. Under the second tranche, the Company issued 3,530,000 common share units at a price of $0.50 per unit for gross proceeds of $1,765,000. Each unit consisted of one common share, one-half of one common share purchase warrant exercisable at $0.60 and one-half of one common share purchase warrant exercisable at $0.80. Each whole $0.60 warrant entitled the holder to purchase an additional common share at a price of $0.60 until May 4, 2014, which was subsequently extended until November 4, 2014, and each whole $0.80 warrant entitles the holder to purchase an additional common share at a price of $0.80 until November 4, 2015. The full value of these units is attributed to the value of the common shares. Agents for the private placement received 16,800 of the $0.60 warrants and 16,800 of the $0.80 warrants with a combined fair value of $3,104. Transaction costs for this tranche, which include cash commissions, and legal and other fees, totalled $59,400.

On March 6, 2014, the Company completed the first tranche of a non-brokered private placement of 10,000,000 common share units at a price of $0.40 per unit for gross proceeds of $4,000,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.60 until March 6, 2016. The full value of these units is attributed to the value of the common shares. Transaction costs for this tranche, which include legal and other fees, totalled $84,629.

On May 8, 2014, the Company completed the second tranche of the private placement for an additional 2,500,000 common share units at a price of $0.40 per unit for gross proceeds of $1,000,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant for the second tranche entitles the holder to purchase an additional common share at a price of $0.60 until May 8, 2016. The full value of these units is attributed to the value of the common shares. An additional 93,375 agents' warrants with a fair value of $12,043 were granted to agents for the second tranche. Transaction costs for this tranche, which include the value of agents' warrants, finder's fees, legal fees, and exchange and other fees, totalled $87,251.

On December 30, 2014, the Company completed a non-brokered private placement of 3,560,000 common share units at a price of $0.25 per unit for gross proceeds of $890,000. Each unit consisted of one common share and

one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.40 until December 30, 2016. An additional 7,200 agent's warrants were issued as part of this private placement with a fair value of $161. Transaction costs for the private placement, which include cash commissions, and legal and other fees, totalled $7,161.

Restricted share units ("RSUs")

The Company has an RSU plan, adopted in fiscal 2013, allowing the Board of Directors of the Company, at its discretion and in accordance with the requirements of the Exchange, to grant to directors, officers, employees and consultants to the Company, non-transferable RSUs. Upon meeting certain operational milestones or other vesting conditions, the RSUs will be exchanged for common shares in the Company for the recipient's benefit. RSUs will expire three years from grant if performance-based vesting conditions are not met.

The maximum number of RSUs that can be issued under the RSU plan is 3,500,000 and the combined maximum number of common shares issuable under the RSU and stock options plans shall not exceed a rolling 10% of the Company's issued and outstanding number of common shares. The Company may grant, subject to Exchange approval, compensatory shares or RSUs outside the RSU plan, which may have different characteristics than those permitted by the plan.

During the year ended December 31, 2013, the Company issued 200,000 RSUs to an employee of the Company. These RSUs will vest in tranches as certain environmental permitting and mine development milestones for Gibellini are achieved. No RSUs have vested as at December 31, 2014 and no expense has been recognized for the potential achievement of vesting conditions.

Bonus and performance shares

Subject to any required shareholder or regulatory approvals, the Company may, outside the RSU plan, grant bonus or performance shares to employees or consultants. These shares may be issued unconditionally ("Bonus Shares"), or may be issued subject to meeting certain performance or retention criteria ("Performance Shares"). For Bonus Shares, an expense is recorded on their grant date equivalent to the prevailing fair market value of the shares. For Performance Shares, an expense is recorded for the grant date fair market value those shares expected to be earned, which is recognized rateably over their anticipated vesting period. The expense recognized for Performance Shares and Bonus Shares results in a corresponding increase to the Company's equity reserves, which is then reclassified to share capital on actual issuance of the related earned shares.

Changes to the balances of Bonus and Performance Shares are as follows:

	Number of Shares
Outstanding, December 31, 2012	725,000
Share awards granted	560,000
Shares issued	(325,000)
Outstanding, December 31, 2013	960,000
Share awards granted	410,000
Shares issued	(620,000)
Outstanding, December 31, 2014	**750,000[1]**

[1]As at December 31, 2014, there are 750,000 Performance Shares outstanding whose release is subject to certain performance or retention conditions being fulfilled. The Company has recognized an expense of $105,637 for the year ended December 31, 2014, with the same amount being recorded in equity reserves as at December 31, 2014 related to those shares which are considered highly likely to vest. Subsequent to December 31, 2014, all unvested Performance Shares then outstanding were cancelled.

The combined expense recognized for Bonus Shares and Performance Shares during the year ended December 31, 2014 is $388,012 (2013 – $133,000), which has been recorded in stock based compensation expense. Corresponding amounts of $105,637 (2013 - $nil) and $282,375 (2013 - $133,000) have been recorded in equity reserves for unissued shares and in share capital for shares issued, respectively.

Warrants

Changes to the balance of warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Life
		$	$	(Years)
Outstanding, December 31, 2012	3,780,087	1.20	0.21	
Warrants expired	(2,167,160)	1.35	0.26	
Warrants issued as part of common share units	12,463,848	0.73	0.02	
Warrants issued as agents' and finders' fees	80,640	0.71	0.08	
Outstanding, December 31, 2013	14,157,415	0.76	0.04	
Warrants expired	(8,273,715)	0.74	0.06	
Warrants issued as part of common share units	8,030,000	0.56	0.00	
Warrants issued as agents' and finders' fees	100,575	0.59	0.12	
Warrants exercised	(13,800)	0.60	0.09	
Outstanding, December 31, 2014	**14,000,475**	**0.66**	**0.00**	**1.1**

The fair value of agent's and finder's warrants issued on a stand-alone basis is determined using the Black-Scholes option-pricing model. Inputs to the Black-Scholes model for these warrants are as follows:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Risk-free interest rate	**1.06%**	1.55%
Dividend yield	**0%**	0%
Expected stock price volatility	**64.46%**	73.06%
Expected life	**1.17 years**	1 year

The following warrants were outstanding and exercisable as at December 31, 2014:

Expiry date	**Exercise Price**	**Number of Warrants Outstanding and Exercisable**
	$	
September 30, 2015	0.80	4,088,100
November 4, 2015	0.80	1,781,800
March 6, 2016	0.60	5,000,000
May 8, 2016	0.60	1,343,375
December 30, 2016	0.40	1,787,200
		14,000,475

Stock options

The Company adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the requirements of the Exchange, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant.

During the year ended December 31, 2014, the Company recorded $329,701 (2013 - $354,402) in stock-based compensation expense for the value of stock options vested. An offsetting amount has been recorded in equity reserves.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Stock Options	**Weighted Average Exercise Price**	**Weighted Average Fair Value**	**Weighted Average Remaining Life**
		$	**$**	**(Years)**
Outstanding, December 31, 2012	2,555,500	0.84	0.58	
Options granted	1,575,000	0.63	0.29	
Options exercised	(53,250)	0.70	0.36	
Options cancelled or forfeited	(188,000)	1.22	0.82	
Outstanding, December 31, 2013	3,889,250	0.73	0.45	
Options granted	1,080,000	0.60	0.23	
Options cancelled or forfeited	(756,750)	1.14	0.77	
Outstanding, December 31, 2014	**4,212,500**	**0.62**	**0.33**	**2.8**

The fair values of the stock options granted during the years ended December 31, 2014 and December 31, 2013 were estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for these options are as follows:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Risk-free interest rate	**1.16%**	1.26%
Dividend yield	**0%**	0%
Expected stock price volatility	**80.20%**	79.60%
Expected forfeiture rate	**16.63%**	18.79%
Expected life	**2.96 years**	2.93 years

The following incentive stock options were outstanding and exercisable at December 31, 2014:

Expiry date	**Exercise Price**	**Number of Options Outstanding**	**Number of Options Exercisable**
	$		
January 21, 2015*	0.35	687,500	687,500
April 1, 2015*	0.75	40,000	40,000
April 16, 2015*	0.60	15,000	15,000
May 16, 2015	0.60	10,000	10,000
August 18, 2015	0.75	50,000	50,000
November 2, 2015	0.70	175,000	175,000
November 2, 2015***	0.70	100,000	100,000
December 29, 2015	1.05	7,500	7,500
December 29, 2015***	1.05	7,500	7,500
February 7, 2016	1.56	100,000	100,000
March 7, 2016	1.50	25,000	25,000
May 26, 2016	0.60	100,000	50,000
August 2, 2016***	0.60	50,000	50,000
February 6, 2017	0.77	65,000	65,000
April 3, 2017	0.70	100,000	100,000
April 12, 2017	0.74	50,000	50,000
June 15, 2017	0.74	250,000	250,000
January 7, 2018	0.90	30,000	30,000
August 26, 2018	0.70	110,000	110,000
August 26, 2018***	0.70	100,000	100,000
November 4, 2018	0.60	1,002,500	1,002,500
November 4, 2018***	0.60	142.500	142,500
December 2, 2018***	0.60	40,000	20,000
April 29, 2019***	0.60	110,000	55,000
May 27, 2019**	0.60	15,000	-
May 30, 2019	0.60	250,000	250,000
July 10, 2019	0.60	200,000	100,000
August 8, 2019	0.60	200,000	100,000
August 26, 2019**	0.60	30,000	-
September 8, 2019**	0.60	150,000	-
		4,212,500	**3,692,500**

* Subsequent to December 31, 2014, these options expired.
** Subsequent to December 31, 2014, these options were cancelled.
*** On April 16, 2015 these options were repriced to $0.10.

An additional 2,432,500 options were granted subsequent to December 31, 2014 at the exercise price of $0.10 per share with a term of five years from the date of grant.

8. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2014, a $78,000 (2013 - $78,000) expense was recorded for office facilities, corporate and administrative services provided by Earlston Management Corp. ("Earlston"), a company with officers and directors in common with Company. Additionally, $41,000, recorded as share issuance costs, was paid to Earlston for fees related to a private placement of common shares in the year ended December 31, 2014 (2013 - $nil). As at December 31, 2014, $22,276 is included in accounts payable and accrued liabilities (December 31, 2013 - $8,891) for amounts owing to Earlston.

During the year ended December 31, 2014, a $60,000 expense (2013 - $180,000) was recorded for services provided by Cansource International Ltd., a company jointly controlled by Ron MacDonald, a former director of the Company who resigned during the period. Included in receivable at December 31, 2014 is $nil (December 31, 2013 –$15,750) with this related company.

Included in prepaid expenses as at December 31, 2014 is $10,000 (December 31, 2013 - $10,000) advanced to Bill Radvak, the Chief Executive Officer of the Company for corporate expenses to be incurred on the Company's behalf. Included in accounts payable and accrued liabilities as at December 31, 2014 is $8,193 (December 31, 2013 - $8,271) owing to this officer for travel expense claims.

Included in accounts payable and accrued liabilities as at December 31, 2014 is $12,600 (December 31, 2013 - $15,200) owing to Mike Doyle, the Executive VP, Operations; and $5,996 (December 31, 2013 - $4,057) owing to Ron Espell, the VP, Environmental.

In addition to the aforementioned related party transactions, salaries and benefits and other compensation earned directly by key members of the Company's management and directors are as follows:

	For the Year Ended December 31, 2014	For the year ended December 31, 2013
	$	$
Salaries and benefits	**481,600**	547,945
Consulting fees	**179,572**	170,076
Stock-based compensation recognized	**226,592**	193,219
Total compensation	**887,764**	911,240

9. SEGMENTED INFORMATION

The Company operates in two reportable segments:

1. Mineral property acquisition and exploration, which includes assets and expenses related to the Company's mineral properties, such as acquisitions costs, permitting, metallurgical work, engineering and related labour; and

2. The sale of CellCube energy storage systems, which includes the purchase of demonstration systems, sales and marketing costs and related labour.

While these two segments are integrated, they are managed separately and have distinct assets, expenses and staff.

A break-down of the Company's operating segments, is as follows:

	Net Comprehensive Loss*	
	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013
	$	$
Mineral acquisition and exploration	**4,750,047**	5,243,278
CellCube energy storage systems	**1,551,499**	-
General corporate	**4,261,995**	3,036,267
Total	**10,563,541**	8,279,545

* Neither operating segment has earned any revenues as of December 31, 2014, so net comprehensive loss includes only segment expenses. Expenses for mineral acquisition and exploration for include the exploration and evaluation expenses as well as impairments and write-offs of mineral properties, the deferred engineering management deposit and water rights. Expenses for the CellCube energy storage segment includes expenses for CellCube demonstration and impairments on advances towards future CellCube sales, equipment and deposits on equipment.

	Non-current, Non-financial Assets as at	
	December 31 2014	December 31 2013
	$	$
Mineral acquisition and exploration	**41,637**	1,933,114
CellCube energy storage systems	**-**	84,181
General corporate	**31,508**	42,569
Total	**73,145**	2,059,864

10. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	For the year ended December 31, 2014	For the year ended December 31, 2013
	$	$
Accounting loss before income taxes	**(10,563,541)**	(8,279,545)
Expected income tax (recovery) at statutory tax rates	**(2,747,000)**	(2,132,000)
Change in statutory, foreign tax, foreign exchange rates and other	**(1,053,000)**	(539,000)
Permanent differences	**517,000**	405,000
Share issue costs	**(43,000)**	(58,000)
Changes in unrecognized deductible temporary differences	**3,326,000**	2,324,000
Total income tax recovery	**-**	-

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	December 31 2014	December 31 2013
	$	$
Deferred tax assets:		
Mineral properties	**5,481,000**	3,827,000
Equipment	**14,000**	3,000
Share issue costs	**125,000**	150,000
Non-capital losses	**5,251,000**	3,205,000
Total deferred tax assets	**10,871,000**	7,185,000
Deferred tax assets not recognized	**(10,871,000)**	(7,185,000)
Net deferred tax assets	**-**	-

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

	December 31 2014	Expiry Date Range	December 31 2013	Expiry Date Range
	$		$	
Mineral properties	**16,121,000**	No expiry date	11,257,000	No expiry date
Equipment	**46,000**	No expiry date	12,000	No expiry date
Share issue costs	**482,000**	2035-2038	577,000	2034-2037
Non-capital losses	**17,844,000**	2028-2034	11,107,000	2027-2033

Tax attributes are subject to review, and potential adjustment, by tax authorities.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2014, the Company's financial instruments are comprised of cash, amounts receivable, reclamation deposits and accounts payable and accrued liabilities. With the exception of cash, all financial instruments held by the Company are measured at amortized cost. The fair values of these financial instruments approximate their carrying value due to their short-term maturities. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

	Level 1	Level 2	Level 3
	$	$	$
Cash	78,413	-	-

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk

A portion of the Company's expenses are incurred in United States dollars and financial instrument balances are held in this currency. A significant change in the currency exchange rates between the Canadian dollar relative to the United States dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

As at December 31, 2014, the Company held $408,617, in net financial liabilities denominated in United States dollars. A prolonged $0.10 increase (decrease) in the value of the Canadian dollar compared with the United States dollar would result in a $40,862 foreign exchange gain (loss) based on United States dollar denominated net financial liabilities as at December 31, 2014. The Company has not hedged its exposure to currency fluctuations as at December 31, 2014

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and amounts receivable. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a working capital deficiency as at December 31, 2014 and additional financing is required for the Company to settle its existing obligations and fund future obligations. As such, the Company is exposed to liquidity risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest bearing accounts which pay relatively low rates of interest, the Company considers the interest rate risk to be limited.

11. CAPITAL MANAGEMENT

The Company manages its capital, which comprises the components of shareholders' (deficiency) equity, and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Although the Company has made operational changes, including headcount reductions and slow-downs on mine permitting to reduce its expenditures, the properties in which the Company currently has an interest are in the exploration stage and its CellCube sales channel is still developing; as such the Company is dependent upon external financings to fund activities and will require such financing to fund its working capital deficiency as at December 31, 2014 and to meet future operational requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is not subject to externally imposed capital requirements.

12. LOSS PER SHARE

The numerators and denominators of basic and diluted loss per share for the years ended December 31, 2014 and December 31, 2013 are as follows:

	For the year Ended December 31, 2014	For the year Ended December 31, 2013
Net loss (numerator)	**$(10,563,541)**	$(8,279,545)
Basic and diluted weighted average number of common shares outstanding (denominator)	**57,312,046**	37,244,971
Basic and diluted loss per share	**$(0.18)**	$(0.22)

The Company incurred net losses for all periods reported, so no dilutive impact of in-the-money stock options and warrants has been included in the calculation of diluted weighted average number of common shares outstanding.

13. COMMITMENTS AND CONTINGENCIES

The Company is committed to the following expenditures:

Nature of payment	2015	2016	2017	2018	2019
Mineral rights[1]	US$198,000	US$144,000	US$144,000	US$144,000	US$144,000
Water rights[2]	US$174,000	US$125,000	US$125,000	US$125,000	US$125,000
Office lease[3]	Cdn$140,816	Cdn$140,816	-	-	-

1. As described in Note 6, the Company makes NSR prepayments in order to acquire and maintain mineral rights to its properties. To maintain certain of its properties in good standing, the Company is required to continue making these payments. While not contractually committed to further payments, the Company considers these to be constructive commitments. Certain mineral rights payments totalling $54,000 that were due in 2014 remain outstanding and are included in the amounts owing for 2015.
2. As described in Note 6, the Company makes annual rental payments to maintain water rights for its properties. While not contractually committed to further payments, the Company considers these to be constructive commitments. Certain water rights payments totalling $24,000 that were due in 2014 remain outstanding and are included in the amounts owing for 2015.
3. Subsequent to December 31, 2014, the Company has cancelled its office lease effective April 30, 2015, with no further obligations required under the lease.

14. EVENTS SUBSEQUENT TO THE REPORTING DATE

On April 16, 2015 the Company announced that it will issue up to 1,670,000 common shares in settlement of indebtedness to arms'-length parties of up to $116,900.

On April 23, 2015, the Company completed a non-brokered private placement of 3,014,285 common share units at a price of $0.07 per unit for gross proceeds of $211,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.12 for 12 months.